

28

28 FEB 1947

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GENERAL

1. Turks will not raise question of regional Straits defense--US Ambassa-
dor Wilson reports that the Turkish Premier and Foreign Minister share the State Department's views on the inadvisability of proposing a regional agreement for defense of the Straits (see Daily Summary of 21 January, item 4). Because Soviet policy "unquestionably is to dominate Turkey," the Foreign Minister feels that the USSR would not act in good faith but would take advantage of any new proposal on the Straits question to weaken Turkey's position. He therefore believes it would be most un-^{25X6}wise for the Turks to take any further initiative in the matter.

2.

EUROPE

3. FRANCE: Navy Minister suggests deal to acquire US ships--Navy
Minister Louis Jacquinot has told US Ambassador Caffery that the French Navy "sorely needs ships" and that, if the US can supply "some ships," Jacquinot will "strongly support" the US in regard to privileges for the US Navy at such North African ports as Port Lyautey.
4. USSR: US Embassy plans to protest Soviet detention of US citizens--US
Embassy Moscow plans to send a note of protest to the Soviet Foreign Office regarding a number of claimants to US citizenship who, during the past two years, have been arrested in eastern and southern Europe and now apparently are being detained in labor camps in the USSR. The note will point out that, since November 1945, over 100 such cases have been called to the attention of the Soviet Government, and that the Embassy's inability to obtain a satisfactory reply is "a matter of the gravest concern" to the US Government.

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5. YUGOSLAVIA: Permission refused US Newsmen to visit guerrilla camp--
US Charge Cabot reports that US newspaper correspondents have been refused permission to visit Bulkjes, Yugoslav camp for guerrilla training of Greek refugees. Greek guerrillas reportedly are "being farmed out" to small Yugoslav villages in anticipation of the UN Balkan Investigating Commission's arrival in Belgrade. (CIG sources confirm that all Greeks are being temporarily evacuated from Bulkjes and other training camps.)

FAR EAST

25X1X

6. FRENCH INDOCHINA: Increase in Communist activity reported--
[REDACTED] told US Consul Reed of his belief that (a) Chinese Communist activity is increasing among Chinese made homeless by recent fires; (b) French, Chinese, and Soviet Communist agents are active in Indochina but do not appear to be working in concert; and (c) the Vietnam Government is dominated by Communists who are establishing a nationalist state as a prelude to a Communist regime in Vietnam. Reed feels that, while Annamite Communism is a potential threat, it is overemphasized as a present danger.

7. JAPAN: War Department favors WFTU visit to Japan and Korea--
Secretary of War Patterson, replying to General MacArthur's objections to the proposed visit of a World Federation of Trade Union mission to Japan (see Daily Summary of 14 February, item 3), states that the exclusion of the WFTU from Japan and Korea would result in criticism of US policy both at home and abroad. As it appears probable that entry of the WFTU into Northern Korea "can and will be accomplished," Secretary Patterson points out the US Government would be placed in an unfavorable light if it refused a similar opportunity in areas under US control.

THE AMERICAS

8. BOLIVIA: Arrival of special Argentine mission--US Ambassador Flack reports that the unexpected arrival in La Paz on 25 February of a special Argentine mission for negotiating economic and commercial agreements (see Daily Summary of 20 December 1946, item 4) was regarded by the

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Bolivian Foreign Office as "most untimely," inasmuch as (a) definite action on the agreements would have to await the seating of the new President and Cabinet, and (b) shipments of Argentine food and other products, during January and February, had not fulfilled Argentina's commitment for that period.

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GENERAL

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2. Argentina investigates fulfilment of Chapultepec commitments--US
Embassy Lima reports that, according to unofficial advice from the Peruvian Foreign Office, Argentina has asked what measures Peru has taken in fulfilment of its commitments under the Chapultepec agreement.
(CIG Comment: This suggests that the Argentine Government may be attempting to prove that other Latin American Governments have done less than Argentina to fulfill their Chapultepec commitments.)

EUROPE

3. HUNGARY: Soviets arrest Smallholder leader--US Representative
Schoenfeld reports that Soviet occupation authorities have arrested Bela Kovacs, member of Parliament and former Secretary-General of the Smallholders' Party, on charges of organizing espionage against the USSR and participating "in the formation of armed groups, members of which committed terroristic acts and murders in Hungary against members of the Soviet Army." (The Smallholders had previously refused Communist demands that Kovacs' parliamentary immunity be waived to permit his arrest on charges of conspiring to overthrow the Hungarian Government; see Daily Summary of 24 February, item 4.)
(CIG Comment: The Soviets have not, until now, openly interfered in the current campaign of the Communists to gain control of the Government by implicating leaders of the majority Smallholders' Party in an alleged conspiracy. This direct violation of Hungary's sovereignty suggests that the USSR is determined to obtain a Communist-dominated regime prior to the withdrawal of Soviet troops.)

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4. **GERMANY: Soviet condemnation of US-UK bi-zonal policy**--According to Acting US Political Adviser Muccio, Marshal Sokolovsky, Soviet Representative to the Allied Control Commission, on 25 February read before the Commission a prepared statement bitterly attacking US-UK zonal fusion. Muccio believes the attack may possibly presage the Soviet line at the coming Council of Foreign Ministers in Moscow. Should the bi-zonal policy prevail, Sokolovsky declared, it will lead to the partition of Germany and threaten European security by enabling the Junkers to regain control.

(CIG Comment: Sokolovsky's condemnation is considered the initial Soviet effort to defend the USSR's unilateral action in Germany by placing on US-UK bi-zonal policy the onus for failure to implement German economic unity.)

5. **ITALY: Participation in African territorial disposition urged**--US Ambassador Dunn recommends that, if the Italians request permission to accompany the Quadripartite Commission of Inquiry on its visit to Italian African territories, the US will favor this request. Dunn believes that "some manner of Italian participation" would go a long way towards reconciling the Government and public opinion to the final disposition of the territories.
6. **YUGOSLAVIA: Countermeasures to nationalization of US property**--US Charge Cabot, in view of Yugoslav failure to provide for US financial interests in the recent property nationalization law, recommends the following countermeasures: (a) blocking of Yugoslav assets in the US until a settlement is reached; (b) payment of US claims from these assets, if negotiations fail; (c) formation of a commission to pass on US claims; and (d) blocking of all financial transactions between the US and Yugoslavia except under license.

NEAR EAST-AFRICA

7. **IRAN: Shah may be contemplating Qavam's removal**--US Ambassador Allen reports increasing indications that the Shah, encouraged primarily by the Army Command but also by political malcontents, may be seriously contemplating the removal of Qavam prior to the convening of the Parliament. The principal basis for such action would be allegations of corruption and fraud.

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(CIG Comment: Because of Qavam's political strength and anticipated large majority in the next Parliament, it would be difficult for the Shah to remove him from the Premiership without his consent.)

FAR EAST

8. **FRENCH INDOCHINA:** Federated state suggested--US Consul Saigon reports the opinion of the President of the Provisional Government of Cochin China that a federation, rather than a union of the three districts (Tonkin, Annam, and Cochin China) claimed by Ho Chi Minh's government as parts of Vietnam, might solve the problem of Cochin China's future status. The President insisted, however, upon considerable autonomy for Cochin China to avoid domination by Tonkin.

Recognition of imperial regime unlikely--A Foreign Office official has told US Ambassador Caffery in Paris that while recognition of an imperial regime under the former Emperor of Annam cannot be entirely excluded, it is extremely unlikely in view of the Socialist-Communist complexion of the present French Government.

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GENERAL

1. Embassy Moscow urges permanent Greek Border Commission--US Embassy Moscow fears that the US and UK may be presented with a "lightning fait accompli" of Soviet domination in Greece unless an effective permanent border commission is operating prior to the withdrawal of British troops. The Embassy points out that Soviet preparations to exploit any opportunity in Greece have recently been given impetus by (a) the continuing political and economic chaos which, contrary to Soviet expectations, the US and UK have failed to check; (b) the effect which control of Greece would have on the problem of Turkey and the Straits; and (c) contemplated UK troop withdrawals.

EUROPE

2. RUMANIA: Reaction to US food gift--US Delegate Allied Control Commission Bucharest reports that the gift of food by the US to relieve famine conditions has created "widespread satisfaction" throughout Rumania. He believes that it will be a long-term factor in maintaining good will.

FAR EAST

3. CHINA: Third party views on reorganization of government--Chinese minority party leaders have expressed to Ambassador Stuart their fears that the deteriorating Chinese situation will drive the liberal groups into the Communist camp. Carson Chang, leader of the Social Democrats, indicated he would not join the Government because he could be more effective outside the Government in influencing change. The Generalissimo, according to Chang, is the greatest stumbling block to a genuine reorganization because "he can not conceive" of any successful solution by "democratic processes."

Soong doubts effectiveness of economic controls--According to a report from US Treasury Attache Nanking, even T.V. Soong, President of the Executive Yuan, believes that the Central Government's emergency economic control measures will provide only temporary respite and do not affect the underlying economic situation (see Daily Summary of 25 February, item 5).

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4. **FRENCH INDOCHINA: Compromise on Cochln China expected-** [REDACTED] expressed to US Ambassador Canery his opinion that the government set up in Cochln China by Admiral d'Argenlieu will not last long and that the French Government will be compelled to enter into a compromise with Vietnam regarding Cochln China's future status.

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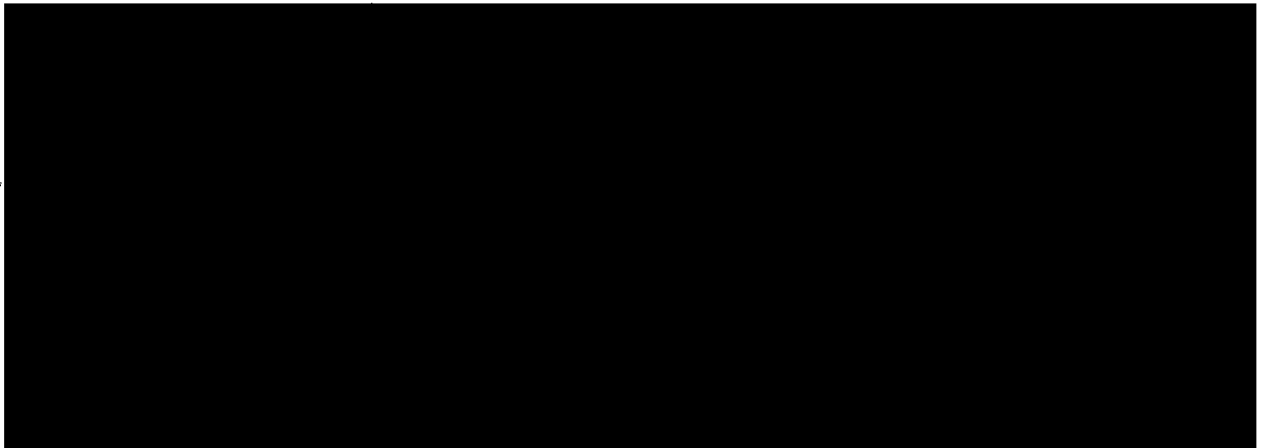
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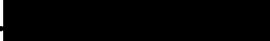
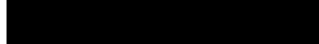
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GENERAL

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EUROPE

2. **POLAND:** Communist control increases-- told US Ambassador Lane that the new "little" Constitution passed by Parliament, which gives absolute power to the "councils of state," will place "complete control of the nation" in the hands of Communists and will remove the last vestige of authority from the Council of Ministers and from Parliament. Lane concurs  opinion and adds that the Socialists will, for the time being, be permitted to believe that they play an important part in the Government, but that actually the Communists will not allow them to make policy decisions. 25X1X
3. **FRANCE:** Continued US "sympathetic aid" sought--Herve Alphand, Foreign Office Economic Director, has expressed to a member of US Embassy Paris the hope that the US would continue "sympathetic aid" in order to stave off possible political and social repercussions which might "impel" France to draw closer to "another" orbit. 25X1X
4. **GERMANY:** Reorganization of French Zone planned--US Political Observer Mayer reports from Baden-Baden that an "administrative reorganization of the French Zone is to be announced soon." According to Mayer, the French plan is to decentralize authority by delegating more power to the Regional Military Governments which will in turn give more responsibility to local German authorities. Mayer adds that

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the reorganization might be considered "a suitable occasion to replace General Koenig" as Military Governor of the French Zone.

FAR EAST

5. **CHINA: Government's ability to carry out economic controls doubted--** US Ambassador Stuart reports that grave skepticism exists in high Chinese circles as to the ability of the Central Government to carry out the emergency economic control program announced on 16 February. Many "informed and intelligent" people feel that the measures will prove only a stop-gap "which may for some time arrest economic disintegration but cannot provide more than temporary relief."

Chiang urged to modify his program-- Ambassador Stuart also reports that the Chinese Minister of Communications is trying to persuade Chiang Kai-shek to adopt a program whereby the Central Government would (a) institute complete political reform in China south of the Yangtze River; (b) assume a defensive attitude in Manchuria; and (c) clear the major rail lines passing through Communist-controlled areas in Shantung Province and immediately south of Shantung. The Communications Minister believes that this program (decidedly less ambitious in its military aspects than earlier Nationalist plans) is well within the capabilities of the Government forces, but he notes that "arms are desperately needed at the moment." The Chinese G-2 has also informed the US Military Attache that, at the present rate of consumption, the Nationalists' supply of ammunition would last only three months.

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EUROPE

1. **RUMANIA: Soviet troop withdrawals**--US Representative Berry reports that, [REDACTED] the Soviets have begun organizational preparations for the withdrawal, by 15 April, of all but four divisions of Soviet occupation troops (currently estimated at 10-12 divisions). [REDACTED] the Soviet military commander will have under his command a "formidable civil organization of Soviet operators . . . to control the country in civilian guise."
2. **USSR: Violent propaganda attacks on US**--According to US Embassy Moscow, Soviet propaganda attacks on the US have reached an unprecedented intensity. The Embassy believes this attitude may be designed to cover up certain weaknesses made evident by recent failures of Soviet policy at home and abroad. In the Embassy's view, the present campaign is calculated to create among the Western Powers an attitude of pessimism regarding the forthcoming CFM meeting, so that the Western delegates will be grateful for even minor Soviet concessions.
3. [REDACTED]
4. **HUNGARY: Collapse of coalition Government again reported imminent**--US Minister Schoenfeld reports that Premier Nagy now expects the Communists and Social Democrats to withdraw from the coalition Government, because the Smallholders Party refuses to waive parliamentary immunity for its former Secretary-General, Bela Kovacs, who has been accused by the Communists of participating in the alleged subversive plot against the Government (see Daily Summary of 27 January, item 5). Nagy fears that leftist-inspired disturbances would make it impossible for a purely Smallholders' Government to maintain order and that new elections may therefore have to be held.
5. **FRANCE: Possible removal of key Army officers**--[REDACTED]

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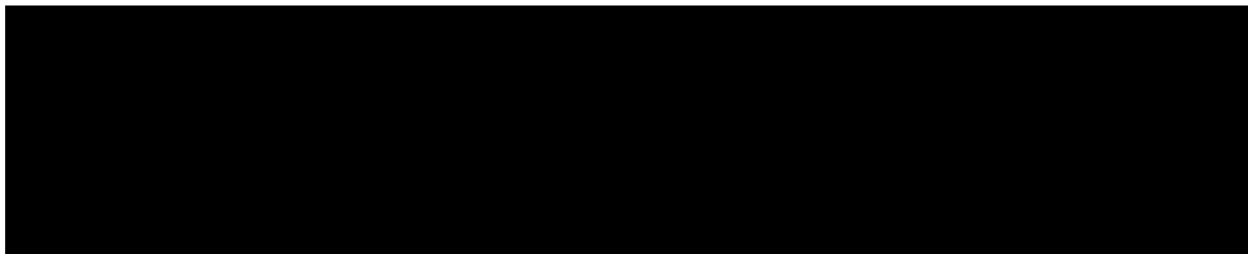
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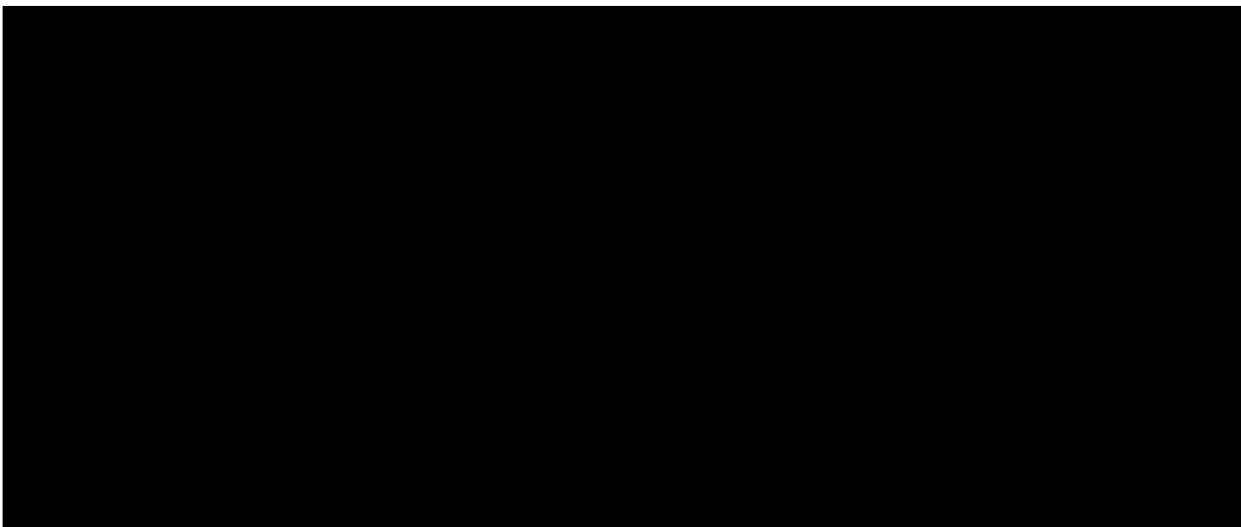
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(CIG Comment: Should Petit become Commanding General of the Army, the Communists will have gone far in neutralizing the effectiveness of the Army in putting down any Communist attempt to take control of the Government by force.)

25X6

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7. GREECE: Further views on Greek economic crisis--Paul Porter, Chief of the Economic Mission to Greece, reports that the Greek economic crisis is so acute that if the Greek Government awaits the final recommendations of his Mission, the situation will have "deteriorated to the point where little could be accomplished." Porter is therefore cooperating with the US Economic Mission and the US-UK Currency Commission to formulate "specific immediate undertakings by the Greek Government" to combat further wage and budget inflation.



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FAR EAST

8. **CHINA:** Chinese Government reorganization--US Ambassador Stuart has been informed by the Generalissimo that the reorganization of his government will be undertaken "in the closing days of this month."

Courier ship delayed--Stuart also reports that on 23 February (2 days before the scheduled departure of the US courier ship for Dairen), the Soviet Embassy handed him a note stating that it could not notify the proper authorities concerning the ship's departure (as the US had requested) because notification must be made through US Embassy Moscow to the Soviet Minister of Foreign Affairs. The State Department has instructed Embassy Nanking to hold the ship pending further instructions.

US aid in capturing private foreign assets sought--T.V. Soong has informed US Treasury Attache Nanking that he is anxious to obtain from the US and UK Governments a list of private Chinese holders of assets in the US and the British Empire. According to Soong, the Chinese Government is considering taking steps to gain control of these private assets. Soong believes that without US and UK cooperation such steps "could not amount to much."

THE AMERICAS

9. **PERU:** Debt settlement offer unacceptable to US--US Ambassador Cooper, on instructions from Washington, has informed the Peruvian Minister of Finance that Peru's latest dollar debt settlement offer is "completely unacceptable" to the US.
10. **VENEZUELA:** Revolutionary movement is reported ready--US Military Attache Caracas reports that followers of ex-president Lopez Contreras assert that all local preparations for a revolutionary movement have been completed (see Daily Summary of 12 February, item 4).

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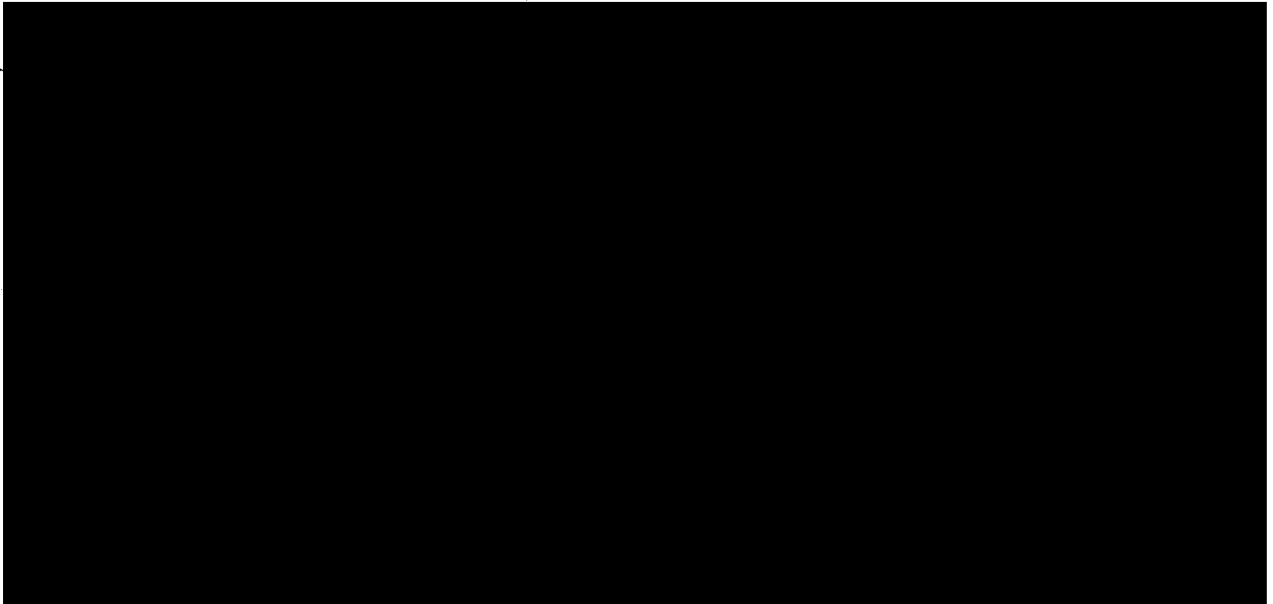
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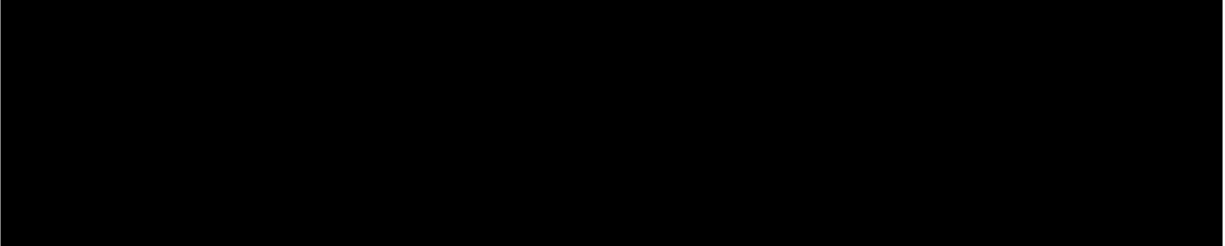
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EUROPE



2. **FRANCE: Political difficulties anticipated--US Ambassador Caffery reports that public confidence and morale has gradually deteriorated in the past three weeks, because of a growing general conviction that the present broad coalition Government by its very nature is incapable of making the decisions necessary to restore the French economy and save the franc. The cold wave has also been a contributing factor. Caffery believes that a political and economic crisis within the next several months "seems almost inevitable." The magnitude of such a crisis, he adds, probably will depend largely on how the financial and economic situation evolves; if it deteriorates too far, an "extremist" solution of France's difficulties might result.**

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FAR EAST

3. **FRENCH INDOCHINA:** Ho exploits Vietnam Socialists--US Consul Hanoi reports that, in French-monitored broadcasts, the Vietnam Socialist Party has insisted that the Vietnamese people only recognize a government headed by Ho Chi Minh. The consul believes that the recent prominence given to the Vietnam Socialist Party (wholly controlled by the Communist Viet Minh League) may indicate that Ho is preparing to reorganize his government, at least nominally, to give the appearance of a Vietnam administration purged of "extremists" in preparation for new negotiations with the French.

THE AMERICAS

4. **ARGENTINA:** Plans to develop atomic energy denied--US Ambassador Messersmith describes as "utterly fantastic" recent US press reports that (a) a German scientist has been invited to Argentina to conduct research in nuclear physics, and (b) the Government is planning to utilize recently-discovered deposits of uranium in the production of atomic energy and bombs. The Argentine Foreign Minister, confirming Messersmith's opinion, said that though his Government was "naturally interested in determining whether there were deposits of uranium" in Argentina, this was the limit of its "real interest."

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GENERAL

1. French Communist views on UK Communist objectives--According to Caffery, the French Communists in Paris consider that the primary task of the British Communist Party at present is to create a united front with the left wing of the Labor Party in order to compel the British Government to reduce the number of British troops abroad as well as to curtail production of armaments. Caffery understands that the British Communists have decided to demand demobilization of at least two-thirds of the UK Army on the pretext of manpower needs.

Caffery adds that among the questions to be discussed at the forthcoming Communist Conference in London is the "world crisis of Capitalism" which Moscow predicts will reach its peak not later than 1948. All communist militants reportedly are to be prepared for "new tactics" which may be required when the crisis reaches its maximum intensity.

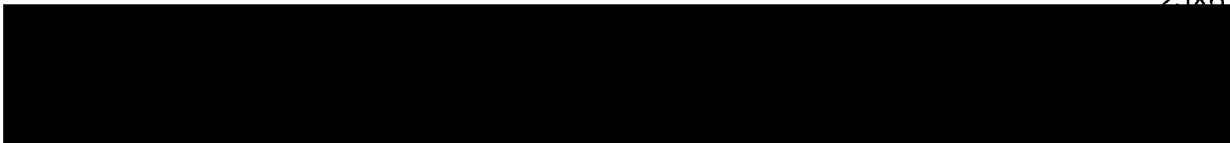
(The nineteenth Congress of the British Communist Party is scheduled in London for 22-24 February. It will be followed, during 26 February-3 March, by a conference of the Communist Parties of the British Empire)

2. Norway refuses to discuss Spitzbergen's militarization--Foreign Minister Lange of Norway has advised US Ambassador Bay that the recent Storting resolution, which disapproves further bilateral military negotiations with the USSR on Spitzbergen, has been transmitted to Molotov. Lange further indicated that (a) while Norway is satisfied with the demilitarization provision of the 1920 Treaty, it might favor "certain changes" in the Treaty, and (b) Norway has offered to continue discussions with the USSR on the economic aspects of the Treaty, largely as a friendly gesture to mitigate effects of the refusal to discuss militarization.

(CIG Comment: The forthcoming release to the Norwegian press of the text of the Storting resolution will be an open rebuff to the USSR and will make the USSR's tactical position in respect to bases in the Svalbards decidedly more unfavorable than it has been at any stage of the negotiations.

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(CIG Comment: Particularly in view of information received on low Army and public morale in Greece and on increasing guerrilla strength, CIG believes that the gravity of the Greek political as well as economic situation should not be minimized.)

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THE AMERICAS

5. ARGENTINA: Messersmith against US sailors visiting Argentina--US Ambassador Messersmith has recommended that personnel from the US Naval Task Force participating in the 1 March inauguration of Uruguayan President Berreta not be permitted to visit Buenos Aires because their presence would (a) remind the Argentine Government and Naval officials that US Naval forces were sent to inaugurations in Chile, Brazil, and Uruguay, but not Argentina, and (b) retard the development of a "generally more friendly attitude toward the US."

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EUROPE

3. **USSR: Vyshinski's views on current questions**--In a recent conversation, Soviet Deputy Foreign Minister Vyshinski told US Ambassador Smith that (a) the USSR is at present unwilling to agree to the flight of foreign planes over its territory; and (b) in his personal opinion, the USSR will not sign the constitution of the International Refugee Organization. Regarding Soviet failure to answer US requests for negotiations on lend-lease settlement, Vyshinski said he would "follow this through personally."

US seeks settlement for Austrian oil--The State Department has instructed US Embassy Moscow to inform the Soviet Government of the "serious concern" with which the US views the USSR's failure, "despite repeated promises," to compensate US-owned oil companies for products they have been required to deliver to Soviet agencies in Austria. Such failure is described as "completely in violation of well-established principles of international law and commercial practice, as well as the agreed-upon rights of Allied properties in Austria."

25X1X

4. **RUMANIA: Soviets believed unlikely to grant economic relief**--

[REDACTED] has told US Representative Berry that Rumania has thus far failed to obtain any important economic concessions or assistance in current negotiations with the USSR. [REDACTED] offered as reasons: (a) Rumanian Communist negotiators, aware of their precarious domestic position, are too hesitant

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to impress upon the Soviets Rumania's true economic difficulties; (b) although the Soviets desire to aid Rumania economically, their own internal difficulties make immediate assistance impossible; and (c) the USSR would not dare help Rumania, even if it could, for fear of evoking similar requests from other satellites, such as Hungary, which the USSR "certainly does not wish to assist."

FAR EAST

5. CHINA: Stuart's estimate of Chiang's financial measures--Ambassador Stuart comments that the "forthright and statesmanlike" action taken by Chiang Kai-shek and his Government to cope with China's economic and financial crisis will probably have "the immediate if only temporary effect of restoring a degree of public confidence in the Government's ability to meet present problems." However, Stuart (a) questions whether the Government can effectively enforce its currency and price controls, or collect revenues with the necessary impartiality and vigor; and (b) believes that "only cessation of civil war would create conditions for fiscal and currency stabilization."

On the subject of transportation difficulties (a major factor in China's economic deterioration), Stuart notes that no major rail line north of the Yangtze has operated continuously during the past six months, and that transportation conditions are now growing worse due to "continuous Communist harassment."

THE AMERICAS

6. ARGENTINA: Belmonte denied landing permission--US Ambassador Messersmith reports that Major Belmonte, Bolivian war-time Nazi agent, arrived at Buenos Aires on 16 February and that the Argentine Government, complying with a Bolivian request, has confined him to his ship and professedly plans to return him to Spain on the same vessel.

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GENERAL

1. Roy Howard to seek all-out aid to Chiang--Ambassador Stuart in Nan-king reports that Generalissimo Chiang had a 90-minute conference with Roy Howard and eight US publishers and editors on 14 January and then granted a 30-minute private interview to Howard which was greatly resented by the eight others. According to the publishers, Chiang made a plea for all-out US support with arms, ammunition, and money and added that with full US support he could suppress the Communists and unify China. Howard, avowedly speaking for the rest of the press party, said that the US should change its policy and back the Nationalist Government fully. Four of the press group took exception to Howard's statement and expressed themselves in favor of Secretary Marshall's statement to the effect that Chiang must broaden and reorganize his Government. Howard later told Soong that US actions are all based on the premise that the USSR is the leading military power and the US must be prepared for any eventuality.

Ambassador Stuart points out that, as Howard is in complete agreement with the Generalissimo, he can be expected to demand all-out aid for the Chinese Government.

2. Chinese may break off treaty negotiations with Philippines--The Chinese Minister in Manila has told US Ambassador McNutt that he is sending a formal note to the Philippines Government announcing that the Chinese will break off negotiations for a treaty of amity unless the Philippines Government will accept the draft of December 1946 which it tentatively agreed to but subsequently repudiated. Reasons given for the Chinese move include (a) Philippines' refusal to grant most-favored-nation treatment on the issues of immigration, residence, and trade, and (b) Philippines' Foreign Office vacillation which the Minister interpreted as a deliberate official anti-Chinese attitude.

EUROPE

3. POLAND: New Premier pleads for US aid--The new Socialist Premier of Poland, Cyrankiewicz, has told US Ambassador Lane that, if the US ceases its economic assistance to Poland, Polish economic and political dependence on the USSR will be increased. He added that persons in

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the Government who had attacked the US did not truly represent the Government's views, and that he and the leaders of the Socialist Party wished to "regain independence" for Poland which would not be possible without closer ties with the West. Lane doubts Cyrankiewicz's ability to obtain approval by "the Moscow masters of the Polish Government" for such a strong policy.

4. ITALY: Dangers seen in withdrawal of Allied troops--US Military Attache Rome reports his opinion that the withdrawal of Allied troops will leave Italy "virtually defenseless" before a "mobilized and bellicose Yugoslavia." He adds that Italy will require at least one year to organize an effective national defense even if given assistance on a large scale by the Western Allies.

Possible friction upon withdrawal to new frontier--US Ambassador Dunn reports that Allied military authorities in Italy believe they will not be in a position to make an "orderly withdrawal" to the new Italo-Yugoslav frontier or a "pacific turnover" of areas in Zone A, Venezia Giulia, now held by US and UK troops unless some form of preliminary boundary demarcation has been completed by the time Italy ratifies the Peace Treaty.

5. GREECE: Ethridge deeply concerned over Greek situation--Mark Ethridge reports that the situation in Greece is deteriorating so rapidly that the border difficulties may be "solved by default" before the Commission completes its work. He states that the Soviet delegate and satellite representatives, convinced that Greece will shortly fall within the Soviet orbit, are stalling the progress of the Commission. Ethridge feels that the Soviet belief in the imminent fall of Greece is justified because (a) Greek army enlistments are down; (b) Army desertions have increased with two detachments going over to the guerrillas in the last three days; (c) Army morale is at the "lowest possible;" (d) Communist membership is increasing, while the Government is losing popular confidence through its ineffectiveness; and (e) the area lost to Government forces is growing.

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FAR EAST

6. **CHINA:** Chiang's strength apparent in financial crisis--US Minister-Counselor Butterworth reports that in China's current financial crisis, it has been Chiang Kai-shek, rather than T.V. Soong and his advisers, who has "faced up" to the necessity for strong and really drastic counter-measures. Although Soong offered objections to the economic program ordered by Chiang, the latter "brushed them aside." In Butterworth's opinion, the Generalissimo "grasped the crux of the emergency . . . more clearly than Soong and his technicians" in realizing that the fundamental need was to preserve the Government's power to govern by ensuring the maintenance of food supply to essential groups. While third party elements are now most reluctant to join the Government under current crisis conditions, Butterworth believes that "the Generalissimo can exert sufficient pressure . . . to bring them in."

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GENERAL

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3. Soviet-French air agreement at "company level"--US Military Attache Moscow reports that an air agreement has been concluded at "company level" between Air France and Aeroflot (Soviet civil airline) which provides for traffic exchange at Berlin (see Daily Summary of 23 January, Item 3). The French Air Mission left Moscow on 11 February after failure to negotiate an air agreement at government level.
4. Poles press French for joint declaration on western border--US Ambassador Caffery has been informed [REDACTED] that the Poles^{1C} are again pressing the French to make some form of "joint declaration," apparently having in mind a guarantee for Poland's western frontier. The Foreign Ministry does not wish to make any "firm declaration" prior to the Moscow Conference, but after the British and Czech pacts are signed, it "will probably" work out an agreement with the Poles.

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EUROPE

5. **USSR:** Soviets to relax censorship on "conference matters" only-- Soviet Deputy Foreign Minister Vyshinski has informed US Ambassador Smith that there would be no censorship on "conference matters" during the Moscow CFM meeting. In Smith's opinion, the USSR has no intention of relaxing general censorship for the visiting correspondents.
6. **GREECE:** Ethridge again urges permanent frontier commission-- Mark Ethridge, US member of the SC Investigating Commission, has reiterated his belief that the establishment of a permanent Balkan frontier commission is essential to the preservation of Greek independence (see Weekly Summary of 7 February, page 4) and that a detailed proposal for such a commission should be prepared by the US delegation to the Investigating Commission. Ethridge reports that such a proposal would be acceptable to the majority of delegates on the Commission.
- The State Department has informed Ethridge that it may be difficult for it to formulate more than preliminary views on these subjects until receipt of facts disclosed by the Commission's investigation.

FAR EAST

7. **JAPAN:** US Adviser opposes Soviet proposal on industry-- The Acting US Political Adviser to SCAP has expressed his opposition to a Soviet proposal that a Far Eastern Commission draft paper on assured minimum production capacity levels for Japan be amended so as to require that SCAP consult with the Allied Council in the designation of individual plants for retention. The Adviser considers that the proposed amendment would violate the FEC's terms of reference and would constitute an unwarranted assumption by the Far Eastern Commission of executive authority over SCAP. The Adviser believes it to be a move toward the establishment of a direct relationship between the Allied Council and the FEC. (When the Soviet delegate introduced the proposal at the 6 February FEC meeting, none of the other delegates supported it.) 25X1X
8. **CHINA:** Private holdings removed from Shanghai banks-- [REDACTED] 1X

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25X1X

[REDACTED]

(CIG Comment: The broad financial regulations announced on 16 February did not include nationalization of gold or foreign currencies, probably because the Government realized that such action would be impracticable.)

THE AMERICAS

9. **BOLIVIA:** New plea for higher tin price--US Ambassador Flack reports that both presidential candidates have informed him that, in their opinion (a) an increase in the price of tin is the key to the new government's ability to succeed; (b) if the increased price is not obtained, both extreme leftist and Communist elements may join the MNR Party (principal supporters of the late President Villarroel) in attempting to create chaos; and (c) without US aid, conditions in Bolivia would become worse than they were under Villarroel. The candidates declared that Bolivia prefers not to limit its freedom of action by accepting a loan from Argentina.

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GENERAL

1. Soviet tactics to retain control in occupied countries--The Commanding General US Forces in Austria has learned [REDACTED] 25X1X

25X1X

[REDACTED] that 12,961 of the Soviet troops demobilized in Austria up to 11 December 1946 have been placed as follows: 4,207 in industrial plants in Austria under Soviet control, 312 on Austrian farms likewise under Soviet control, and 3,120 in the MVD (Soviet Secret Police) in Austria. The remainder (5,322) were sent by the Soviet Transportation Office to Hungary and Saxony.

The Commanding General comments that while these are the first specific figures, a number of similar reports have indicated that the Soviets would use methods of this kind in an effort to retain control in Austria after the occupation.

25X1X

US Military Representative ACC Bulgaria has learned [REDACTED] K1X

[REDACTED] that a transition from Soviet military to political and economic control is indicated by the arrival in Bulgaria of Soviet officers and civil dependents, and by the increased number of Soviet officers appearing in civilian clothes.

(CIG Comment: This evidence is consistent with a number of previous reports indicating the methods by which the USSR may seek to retain control of occupied areas after the "withdrawal" of Soviet troops. It is believed that similar tactics are being employed in Rumania, Hungary and Poland.)

2.

[REDACTED]

FAR EAST

3. JAPAN: MacArthur opposes WFTU visit to Japan--Cancelling his offer of last August to admit a World Federation of Trade Unions' delegation to Japan, General MacArthur declares that changed conditions in the Japanese labor movement make this visit "extremely undesirable at this time." He believes that current unrest of Japanese labor under Communist influence would only be aggravated.

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GENERAL

No. 009

1. Clark's comments on CFM Deputies' meeting--General Clark reports that he does not recommend continuing the work of the Deputies' Council beyond 25 February as "no worthwhile results will be obtained" (see Daily Summary of 11 February, item 2). He adds that any concessions to be obtained from the USSR "will be more readily forthcoming in Moscow than here." Clark believes that the Soviets have "sabotaged progress on the Treaty from the outset" and that they want a treaty which will "sanction their interference at any time in the internal affairs of Austria."

NEAR EAST-AFRICA

2. IRAN: Apparent Soviet retrenchment--US Ambassador Allen reports as significant features of new Soviet tactics in Iran: (a) the closing of the Soviet Consulate General at Shiraz, capital of Fars Province; (b) the apparent discontinuance of activities by the pro-Soviet Tudeh Party in Fars; and (c) the markedly friendly attitude which Soviet diplomats have recently adopted towards Iranians and foreigners alike (see Daily Summary of 6 February, item 5).

(CIG Comment: The Consulate General at Shiraz has long been the USSR's principal post in southern Iran. Its closing may presage Soviet withdrawal from the south as a conciliatory gesture to the British in the hope of obtaining a freer hand in the north.)

FAR EAST

3. CHINA: Embassy stresses gravity of Chinese situation--Commenting on the Central Government's request for US economic aid (see Daily Summary of 8 February, item 7), US Embassy Nanking notes that the speed of China's economic and political disintegration will increase with the continuation of hyperinflation. While an UNRRA or Exim Bank loan would be "of immediate psychological and political assistance," the Embassy emphasizes that such loans would give only temporary support to China's fast-dwindling foreign exchange assets, and would "not make a significant dent" on internal inflation accompanying the

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civil conflict. In the Embassy's opinion, the "gravest political aspect" of China's situation is the decline in the power of the Central Government which will find it increasingly difficult to command allegiance of its military forces and government personnel. Moreover, the Embassy adds, the Communists can force an insoluble economic situation upon the Government by continuing to disrupt communications and by compelling the Government to make excessive military expenditures.

4. **FRENCH INDOCHINA:** Implications in recall of D'Argenlieu--US Consul Saigon believes that the recall of High Commissioner D'Argenlieu probably means that the French are abandoning a solution by force and the policy of divide and rule. The new High Commissioner will probably not have the same powers as D'Argenlieu and will be guided to a greater degree by policy decisions of the Government in France. D'Argenlieu's departure will be welcomed by a "great majority" because no real progress toward a settlement of the Vietnam question was possible under his administration.
5. **N.E.I.:** Pessimism over impasse in negotiations--US Consul General Batavia reports that pessimism is increasing over the impasse in Dutch-Indonesian negotiations which was brought about by Indonesian rejection of Dutch interpretations of the Agreement of 15 November 1946. The Commander in Chief of the Indonesian Army has issued orders to prepare for a campaign of destruction and sabotage, and the belief is growing that President Soekarno either does not desire a general agreement or that he cannot control his military commanders. Dutch business and governmental circles feel that the signing of the November Agreement will only mark the beginning of the real troubles.

THE AMERICAS

6. **ARGENTINA:** State Department's views on Argentine commitments--In reply to US Ambassador Messersmith's recent comments on Argentina's Chapultepec commitments (see Daily Summary of 10 February, item 7), the State Department has advised Embassy Buenos Aires that the Department (a) does not understand that Argentina has "yet met the test", and (b) will "accordingly await developments."

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7. **PANAMA: Secret note procedure on defense sites criticized--According to the US Commanding General Caribbean, Panama's proposal to embody parts of the new defense sites agreement in secret notes would lay the US Army open to attack by persons not aware of contents of such secret notes (see Daily Summary of 5 February, item 7).**

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GENERAL

1. US support urged for Polish claims to Western Territory--US Embassy Warsaw disagrees with US Embassy Moscow's recommendation that the US adopt a "firm stand on principle" for the return to Germany of at least part of the Polish-administered Western Territory (see Daily Summary of 5 February, item 1). Embassy Warsaw feels that the US would lose the support of the Polish people (90 % of whom are now pro-US), and that from a long-range view the US must continue to support them in their struggle against Communism. The Embassy agrees that the US will fail to prevent retention of this area by Poland, but with reference to the matter of Embassy Moscow's prediction that US support of Germany would "cut the ground out from under the German Communists" expresses its belief that, on the contrary, apparent inability of the US to enforce its views would be interpreted by the Germans as a sign of weakness.
2. Progress of Sino-Soviet negotiations on Dairen and Changchun RR--US Consul General Mukden reports evidence [REDACTED] 25X1C 25X1X
[REDACTED] that both Soviets and Chinese in Mukden have received indications of an early arrival of Soviet personnel for the Chinese Changchun Railway. US Embassy Nanking states, however, that [REDACTED] denied that any agreement with the USSR concerning the railway has been reached, or is expected soon.
[REDACTED] no negotiations are now in progress regarding Dairen (see Daily Summary of 2 January, item 3), but gave the impression that the Chinese Government will attempt to get the port open before settling other questions connected with the Sino-Soviet treaty of August 1945.
3. China's policy toward Indochina--US Ambassador Stuart estimates that Chinese policy toward Indochina is directed basically toward a regime under either the influence or direct control of the Chinese Central Government, and is motivated by the Kuomintang's fear of encirclement by Communist states and its desire to appear as a leader of Asiatic peoples. In the implementation of this policy, China would prefer either a trusteeship in which it would have the ruling voice, or a regime headed by a Chinese nominee with only formal

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French connections. Reference of the case to the UN might prevent such Chinese control, though it would discredit France and the Vietnam Communists.

If the present Chinese Government attains some measure of internal stability, Stuart expects a Chinese-inspired campaign for the protection of "oppressed" Chinese in southern areas, followed by developments on the 1938 Sudetenland pattern.

4. Reported revolutionary plot against Cuba and Venezuela--According to US Ambassador Norweb, [REDACTED]

25X1C

25X1C

[REDACTED] the US Military Attache Havana of a plot of Cuban exiles and others, including ex-President Lopez Contreras of Venezuela, which is allegedly being organized in Miami against the governments of Cuba and Venezuela. The first action predicted by the informant would be an invasion of Venezuela by revolutionary forces within four to ten days, after which Lopez Contreras would enter Venezuela from Colombia.

(CIG Comment: A revolutionary movement against the Government of Venezuela has been in the organizational stage for several months.)

EUROPE

5. SPAIN: Troops reduced on Pyrenees frontier--US Embassy Madrid has learned [REDACTED] that Spanish troops on the Pyrenees frontier are being reduced from 160-180,000 to 110,000 men. In the Embassy's opinion, this reduction is intended (a) to reduce the economic burden of the Government, (b) to improve Army morale, and (c) to justify a request for some reciprocal gesture by the French.
6. GREECE: Dangers involved in case of financial collapse--US Ambassador MacVeagh reports that the Porter Economic Mission is concerned with fundamentally the same external threat to Greece as is the SC Border Commission. The Soviets are completely aware that, even if the SC Commission thwarts their aims in northern Greece, a financial collapse would bring about a revolution led or dominated by Communists. Such a revolution would lead to Soviet control of Greece and

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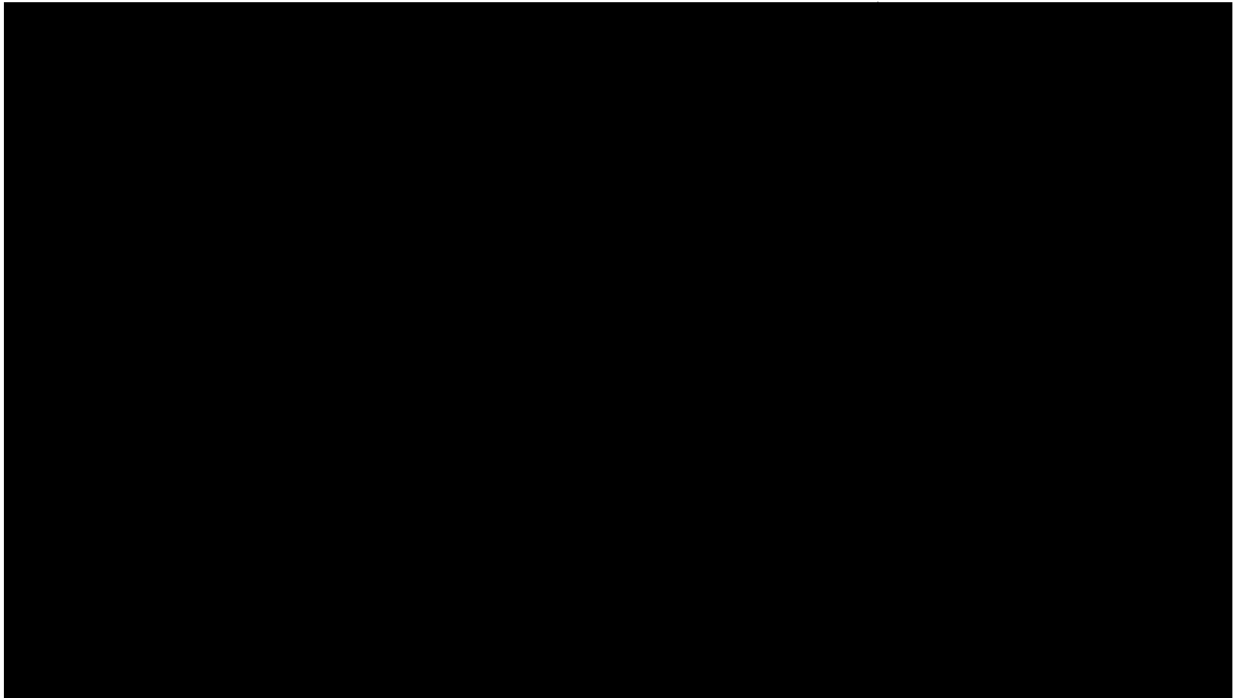
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subsequently of the entire Near East. MacVeagh says that to prevent a financial collapse "a premium of not only five but of many times five million dollars would seem cheap insurance for the US."

NEAR EAST-AFRICA

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FAR EAST

9. CHINA: Communist delegation asked to leave Nanking--US Embassy Nanking reports that the Government has notified the Communist delegation that its presence is no longer desired in Nanking.

THE AMERICAS

10. PERU: President fears civil war--President Bustamante has told US Ambassador Cooper that (a) rightists and members of Peru's left-wing

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Apra Party (increasingly at odds with each other) are preparing for a showdown and may provoke at any time an incident which could develop into civil war; (b) in spite of the increasing influence of both groups in the Army and Air Corps, top ranking Army officers could maintain discipline and would be loyal to the Government in the event of crisis; and (c) in order to obtain needed US credits, he hopes to submit a debt formula in the near future providing for the liquidation of Peru's outstanding dollar debt.

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GENERAL

1. USSR-France wish drastic Austrian Treaty restrictions--General Clark reports that France and the USSR are insisting that military and air restrictions more drastic than those included in the "satellite" treaties be written into the Austrian Treaty. These restrictions are intended to prevent Germany from using Austria as an "experimental laboratory" for the development of new weapons. 25X6

the US, which opposes the French and Soviet proposals, is decidedly in the minority. Clark notes that "such restrictions will facilitate exertion of Soviet pressure and war of nerves against future Austria."

2. Slow progress on Austrian Draft Treaty--The State Department has advised General Clark that in view of the shortness of time remaining before the 25 February deadline when the Austrian Treaty will be due, and the slow rate of progress being made, it may become desirable to leave important issues open for discussion by the Foreign Ministers, or even to postpone the Treaty. The Department states that present haste should not be allowed to jeopardize Austria's basic independence, sovereignty, or chance of economic survival.
3. Evidence of large-scale Soviet withdrawals from Austria--US Military Attache Prague has received reports, which he has "every reason to believe" are accurate, of large-scale Soviet troop movements from Vienna toward the USSR via Budapest and the Carpatho-Ukraine. The scheduled withdrawal reportedly calls for seven passenger express trains and twenty troop trains between 4 February and 20 February. A total of 3,000 Soviet military vehicles will travel the highway paralleling the above route, between 15 February and 1 May.

EUROPE

4. YUGOSLAVIA: UNRRA extension discouraged--Commenting on its "understanding" that UNRRA relief may be extended thirty days, US Embassy Belgrade recommends that no additional rehabilitation assistance be furnished Yugoslavia, because all regional and branch offices of UNRRA have been closed and there would, therefore, be no

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adequate system for observation and control of distribution. (The Embassy previously reported that the Yugoslav Government has not satisfactorily accounted for profits received from sale of UNRRA goods, nor for the distribution of UNRRA supplies processed in Yugoslav factories; see Daily Summary of 4 February, item 4.)

- 25X1C
5. ALBANIA: Withdrawal of troops--Former Acting US Representative in Tirana, Henderson, has received a report [REDACTED] 25X1C that (a) the Albanian Army is rapidly being demobilized; (b) the bulk of troops along the Greek border are being withdrawn; (c) many troops have been sent home on indefinite leave. Henderson concludes that these moves are unquestionably in preparation for the UN investigating commission.

NEAR EAST-AFRICA

6. [REDACTED] 6

7. BURMA: Aung San's reactions to London Conference--US Consul General Rangoon reports that in a recent interview Aung San appeared less confident than he had been before the London Conference. Aung San regards the conclusion of an agreement with the hill states and the convening of a Constituent Assembly as the two most important problems facing the Government of Burma. With reference to the military provisions in the Burmese-British agreement, Aung San declared that British troops might be stationed in Burma "for a long time to come."

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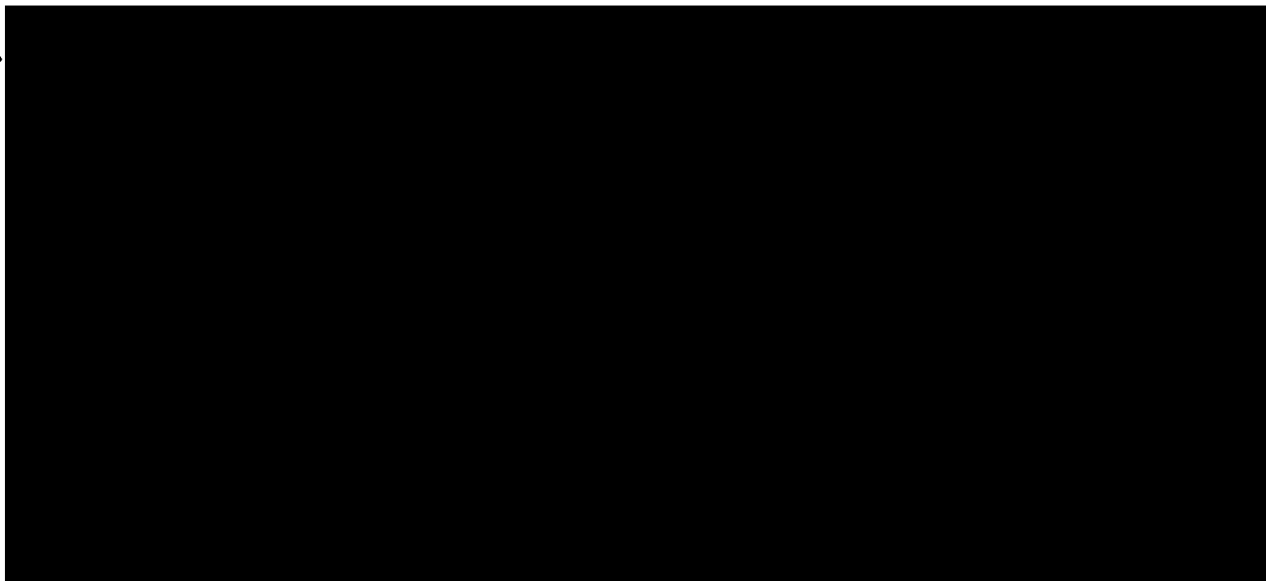
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GENERAL

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EUROPE

2. **FRANCE:** Bidault gloomy on proposal for Germany--Foreign Minister Bidault has told US Ambassador Caffery, in a discussion of French views on a German settlement, that he realized neither the US, UK nor USSR would approve the French position. Bidault added that France is a defeated country whose "dream of restoring her power and glory at this juncture seems far from reality."
3. **UK:** Effects of coal crisis--US Embassy London considers that (a) coal-stock exhaustion throughout the UK is now such that the country can only "limp through" until mid-April, even with improved weather; and (b) although rumors of a Government crisis or attempt to form a Coalition are to be discounted, the Labor Government is facing its "first real loss" of public support.
4. **CZECHOSLOVAKIA:** Reported infiltration by Soviets--General McNarney reports from Frankfurt that, according to "independent sources," Soviet troops in civilian clothes infiltrated during December "on a considerable scale" from Germany into Czechoslovakia. McNarney comments that "there may be some connection" between this reported infiltration

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and the intense Soviet exploitation of possible sources of uranium-bearing ores in northern Czechoslovakia. According to US Military Attache Stockholm, a prominent Slovak geologist recently asserted in Sweden that the Soviets have "completely excluded" all Czechoslovaks from the uranium-deposit areas along the German border.

FAR EAST

5. CHINA: Chiang "exploring" government reorganization--President Chiang has told US Ambassador Stuart that he is actively exploring the details of government reorganization. Chiang tends to favor the establishment of a State Council with "real authority" for the interim period, together "with changes elsewhere in the Government, except in the Executive Yuan where considerations of practical administration are more acute."

The Generalissimo described the financial position as "acute" and expressed strongly the hope that a loan from the US could be promptly approved (see Daily Summary of 8 February, item 7).

"Gross ineptitude" shown in announcing export subsidies--US Treasury Attache Nanking reports that the manner in which the Central Government announced its export subsidy and import surcharge program on 5 February was "characterized by gross ineptitude." In prior discussions (see Daily Summary of 7 February, item 5), this program was considered as an alternative to adjusting the official exchange rate, but when the program was announced, the Government failed to assure the public that no change in the exchange rate was contemplated. Therefore, the Chinese people naturally view the new program as a prelude to exchange adjustment.

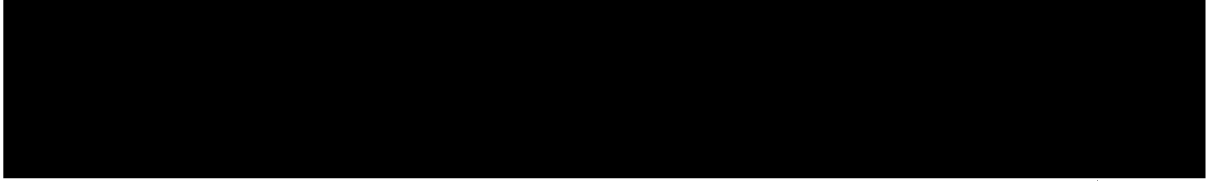
(CIG Comment: In the few days since the program was announced, open market prices for commodities, gold, and foreign currencies in Shanghai have risen so violently that the bulk of the benefits that might accrue from the export subsidy plan already have been eliminated.)

6. NEW ZEALAND: Forces in Japan may be reduced--US Military Attache Wellington believes that the current drive to recruit 4,000 volunteers to replace the New Zealand occupation force in Japan will fail because of publicity given poor conditions in Japan and because of the demand for labor in industry. If it does, the MA adds, New Zealand will seek a reduction in the size of its occupation force.

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THE AMERICAS

7. **ARGENTINA:** Messersmith reports on Argentine "compliance" --US Ambassador Messersmith reports that the Argentine Government has (a) fully complied with its obligations respecting schools, institutions, and propaganda tainted with Nazi or Fascist doctrines; (b) taken such "thoroughgoing" action with regard to enemy property as to cover all firms of any importance in which the UK and US "found any reason to believe there was any enemy interest," and (c) instituted "extraordinary steps" to apprehend those enemy aliens included in a recent decree who have not yet been arrested, so that at least the "principal persons" among them will, "it is hoped," be sent to Germany on "an Argentine vessel which it is expected will leave within a maximum of several weeks." With the deportation of this "further group," Messersmith adds, "the moment will have arrived for the US to recognize that the Argentine has substantially and reasonably complied with its obligations respecting enemy aliens," and to state that "the way is open to the hold-^{25X6}ing of the Rio meeting."
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EUROPE

1. **USSR: Embassy comments on Soviet demobilization--US Embassy**
Moscow believes that one of the reasons for the recently-decreed fifth phase of Soviet demobilization is the serious manpower shortage in industry and agriculture.
2. **RUMANIA: Food shipments to the USSR--US Representative Berry**
has been informed [REDACTED] that during the period 8-28 January Rumania delivered 21,975 metric tons of cereals to the USSR under the Armistice agreement. (Rumania has appealed to the International Emergency Food Council for relief shipments of 1,000,000 tons of corn, and near starvation prevails in many areas of the country; see Daily Summaries of 27 January, item 6, and of 6 February, item 4.)
3. **FRANCE: "Conciliatory" policy toward Indochina--Foreign Minister Bidault** has told US Ambassador Caffery that the French Government "would without question be generous and conciliatory" in Indochina and is "more than anxious to find a peaceful, liberal solution" as soon as possible.
[REDACTED]
4. **GREECE: Soviet SC Delegate stresses internal strife--Ambassador MacVeagh** reports that the Soviet delegate on the UN commission investigating alleged violations of the Greek border is attempting to focus attention on Greek internal strife. MacVeagh adds that the Greek Foreign Minister has addressed an "excited protest" to the UN, and that the Greek press has been erroneously informed that the SC commission has "formally intervened" in asking the Greek Government to postpone certain executions. Mark Ethridge, the US delegate, notes an apparent tendency on the part of the UN representative on the commission, Lund, to cooperate with the Soviets.

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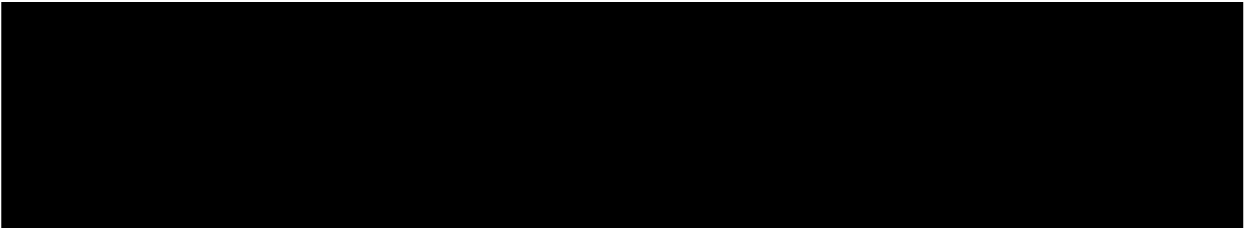
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NEAR EAST-AFRICA

5.



6. IRAN: Qavam hopes for international oil agreement--US Ambassador Allen reports that Qavam has expressed the hope that some kind of international agreement in the field of petroleum will be reached in time to furnish a basis for him to insist upon provisions in the Soviet concession which adequately protect Iranian interests. Qavam also told Allen that although he does not wish to retire he realizes the force of arguments presented to the Shah by his opponents that someone not personally committed to the Soviet oil agreement, which was obtained from him under pressure, should be allowed to take over.

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FAR EAST

7. CHINA: Central Government enters new plea for US aid--On 5 February, T.V. Soong handed US Ambassador Stuart a memorandum giving statistical support to the Chinese claim that their economic and financial situation had abruptly deteriorated in recent weeks (see Daily Summary of 5 February, item 6). In an accompanying aide-memoire, Soong stated that, although the Central Government had hoped to reorganize the State Council and Executive Yuan before asking for US financial aid, the economic situation has forced its hand. He therefore suggested an immediate credit of US \$150 million for imports of cotton (and possibly wheat), and proposed that John Blandford, American adviser to the Executive Yuan on budget and governmental reorganization, visit the United States "before General Marshall leaves for Moscow" to explore the possibilities of further US assistance.

On the previous day, Blandford had discussed the entire problem with US Embassy Nanking and had pointed out that without US support, the Central Government's efforts toward democratic reorganization were jeopardized because (a) "groups and individuals were afraid to be associated with it;" and (b) "Soong could not carry on his fight" with Kuomintang reactionaries and militarists. Blandford added that in its present weakened position, with dwindling foreign exchange resources, the Government could not plan a reasonable course of economic and financial action until it obtained more information on US willingness to offer aid.

The Embassy, while not minimizing China's "current acute difficulties and the eventual gravity of the situation," believes that "Soong and his entourage are showing all the symptoms of an incipient and partly self-engendered panic."

Soviet Policy in Manchuria and Dairen--Ambassador Stuart also reports that Chinese officials appear pessimistic regarding access to Dairen because local negotiations between Chinese and Soviet Military Commanders in Manchuria have achieved no results. In Stuart's opinion, Soviet looting in Manchuria and the denial of the port of Dairen to Chinese National authorities has had the effect of stalling Nationalist political control and economic rehabilitation, thus perpetuating conditions which discredit the Central Government and further Soviet efforts to integrate Manchurian economy with that of eastern Siberia. Stuart believes that the Central Government will probably be unable to reduce

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Soviet economic control over Manchuria and Dairen and that such control is likely to become more stringent in the immediate future. Stuart considers that the US should prevent the Soviet Union from exploiting its position in Manchuria to the disadvantage of both China and the US.

8. NEI: Dutch impose stringent trade controls on Republican ports-- According to US Consul General Batavia, it is expected that the Dutch Navy will be "very strict" in enforcing the recent Netherlands Indies Government decrees on import and export trade through Republican ports. Ships bound for such ports will have to stop first at Dutch ports and the Dutch will seize as contraband (a) all goods of direct or indirect military use; (b) all transportation, radio and telephone equipment; and (c) gold, silver and currencies. On out-bound ships, the Dutch may confiscate, as the produce of European-owned estates, such important exports as tea, palm oil, Javanese coffee and cane sugar, and Javanese and North Sumatran rubber, tobacco, and fibers.

THE AMERICAS

9. BOLIVIA: Serious Indian uprising--US Ambassador Flack reports that an Indian uprising of serious proportions broke out on 5 February, but that army and police troops are believed to have the situation under control. He adds that the uprising appears to have been (a) instigated by the MNR party which supported the late President Villarroel, and (b) supported by pro-MNR miners who furnished dynamite to the Indians (see Daily Summaries of 25 January, item 8, and 31 January, item 6).

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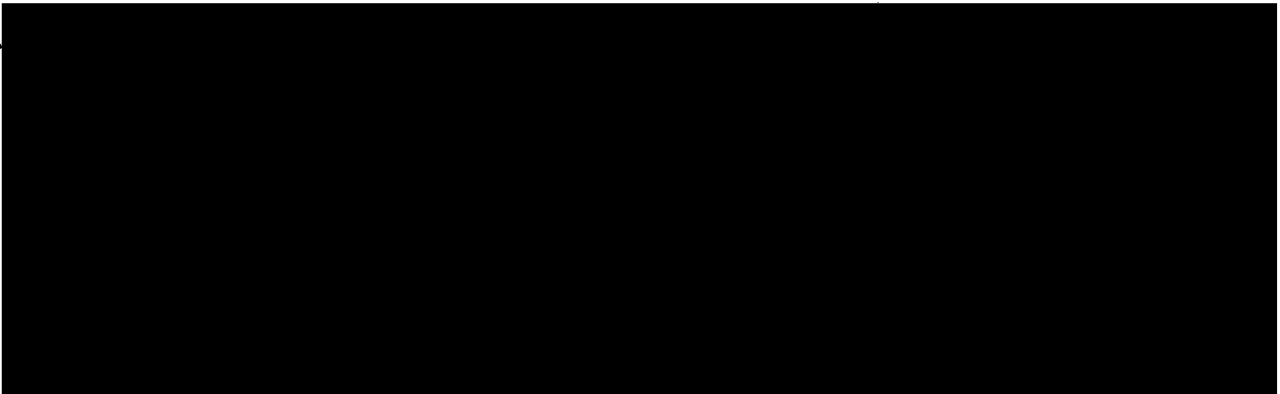
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GENERAL

25X6

1.



EUROPE

25X1C

2. USSR: Annual peacetime inductions to average close to million--US
Military Attache Moscow has learned [REDACTED]
that Chief of the Soviet General Staff Vassilevsky recently told Field
Marshal Montgomery that peacetime inductions into the Soviet armed
forces would average between 750,000 and 1,000,000 men yearly.

Soviet press blasts conditions in western Germany--According
to US Embassy Moscow, the Soviet press recently has erupted with a
series of particularly violent attacks on conditions in the Western
Zones of Germany, obviously in preparation for the Moscow Conference.
Chief among the charges are that: (a) the USSR has complied with the
Potsdam Agreement by eradicating the German war potential in the
Soviet Zone, but in the Western Zones the US and UK have not done so;
(b) formation of trade unions has been obstructed in the Western Zones;
(c) the US and the UK have hindered the payment of reparations from
their Zones; (d) the unification of the US and British Zones results in
the splitting up of the German economy, and creates an Anglo-US
monopoly which aims at preventing joint allied management of the
Ruhr; and (e) this unification is connected with Churchill's plan for
a united Europe.

3. BULGARIA: Government moves to eliminate Opposition--US Repre-
sentative Barnes reports cancellation of Parliamentary immunity and
subsequent arrest of an Opposition deputy in the Grand National Assembly
as "evidence of Communist designs that might render early US recog-
nition difficult, if not impossible." Barnes believes that the Communist-

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dominated Government is determined to drive all Opposition leaders from the Assembly and to impose police sanctions which will eliminate any effective opposition to the Communist Party (see Weekly Summary of 7 February, page 1).

4. ITALY: Ambassador Plenipotentiary to sign peace treaty--US Ambassador Dunn has been informed by the Secretary General of the Foreign Office that an Ambassador Plenipotentiary has been designated to sign the peace treaty on behalf of Italy.

(CIG Comment: The Cabinet has apparently finally assumed responsibility for signing the treaty after an unsuccessful effort to shift the burden to the Constituent Assembly.)

FAR EAST

5. CHINA: Foreign exchange bankruptcy expected in six months--US Treasury Attache Adler reports that at a 4 February conference (attended by T.V. Soong, Governor Pei of the Central Bank of China, their advisers, and himself), concerning the alternatives of either depreciating the official exchange value of the CN dollar further or placing subsidies on exports and surcharges on certain imports, the atmosphere was "one of deep pessimism." The Chinese stated that their foreign exchange assets would last "only six months or so and... anything could happen then."

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the alternative of depreciation was rejected mainly because of the "inevitability of military demand for increased appropriations in case of a general mark-up of prices." Adler comments that "it is to be feared that such a demand will ensue in any case."

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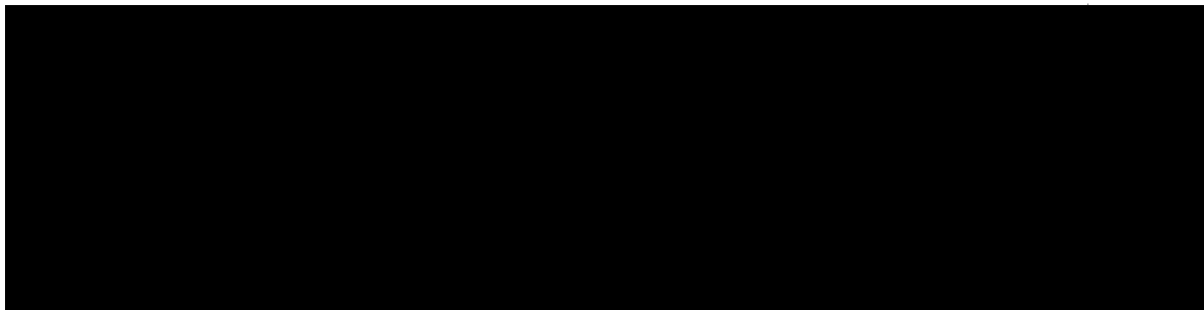
GENERAL

1. Difficulty in forming UN disarmament commission--US Delegate to the UN Austin reports that, in a meeting of the Security Council's sub-committee concerned with armament reduction, Soviet Delegate Gromyko refused to incorporate in the resolution a statement that the new UN committee on reduction of armaments "shall not infringe upon the competence" of the Atomic Energy Commission. As a result, Austin adds, the other members of the sub-committee have become increasingly suspicious of Gromyko's intentions on the entire proposal for a disarmament commission.

EUROPE

2. SPAIN: Extremist pressure for deal with USSR--US Embassy Madrid believes that "certain extremist Falangists" are urging Franco to "make a deal with the Kremlin" as the only way to overcome Spain's present international difficulties. (For at least six months rumors of secret Soviet-Spanish negotiations have been repeatedly reported and denied.)

3.



4. RUMANIA: Groza "yearns" to resign--According to US Representative Berry, Prime Minister Groza recently told a former cabinet member representing the Opposition that "diminishing success" in impeding Soviet and Rumanian Communist extremism made him "yearn" to resign, but that he could not do so except by Soviet order. Groza added that the Communists are making plans to capitalize upon any popular outbreaks resulting from the food shortage to request the retention of Soviet troops after the peace treaty becomes effective.

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Food situation deteriorating--According to US Delegate Allied Control Commission, a recent survey of economic conditions in Bucharest by a group of US welfare experts indicates that (a) starvation in Bucharest may be expected after 1 March unless food stocks are extensively augmented; (b) the Government's forced collection program is rapidly transforming a regional problem into a national calamity; and (c) even if the US makes substantial food shipments, the lack of storage and transportation facilities will probably prevent any improvement in the situation.

NEAR EAST-AFRICA

5. IRAN: Soviet "generosity" towards Iran--US Ambassador Allen reports that the willingness of the Soviets to return to Iran trucks carried across the border by retreating Azerbaijanis has surprised the Iranians who are unable to understand the motive behind this "generosity." Allen adds that most commentators connect it with Soviet desires to act correctly during the period prior to discussion of the oil concession in the Majlis. The US Military Attache Tehran reports further evidence of such "generosity" in the recall from Iran of certain Soviet consuls who were closely associated with the Azerbaijan Democrats.

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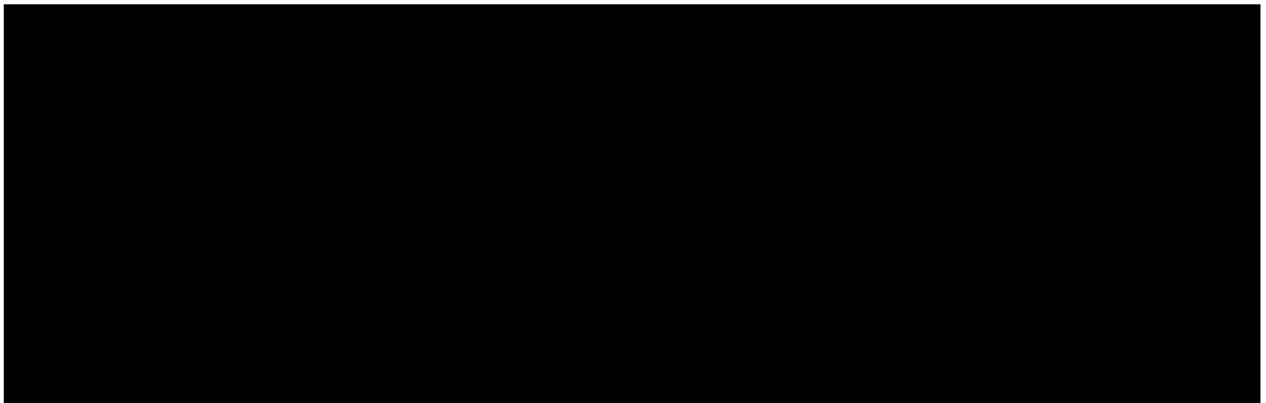
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GENERAL

1. US opposition urged to Polish claims to Western Territory--US Embassy Moscow, while conceding that there is no way of inducing the Polish and Soviet Governments to relinquish to Germany the Polish-administered Western Territory if they decide to remain there, nevertheless favors a "firm stand on principle" for the return of at least a part of this area to Germany. The Embassy notes that the Kremlin's main objective is the domination of Germany through the Socialist Unity Party (SED), and believes that US counter-strategy should be to support German claims to this much-needed agricultural area, thereby cutting the ground from under the German Communists.

2.



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EUROPE

3. SPAIN: Possible Monarchist-Democratic Alliance agreement--US Charge Madrid has been advised [REDACTED] 25X1X

25X1X

[REDACTED] that Monarchist groups may "possibly" reach an "agreement" within a few days with the Democratic Alliance, a group made up chiefly of non-Communist leftists.

(CIG Comment: Because of many internal conflicts on both sides, an effective alliance between Monarchists and moderate leftists is unlikely soon.)

4. AUSTRIA: Displaced Persons seen as major obstacle to treaty--General Clark reports that the DP's in Austria are "one of the major obstacles to successful conclusion of the Austrian treaty." He believes that the majority will find no asylum anywhere but in Germany.

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5. **BULGARIA:** Government reported unlikely to carry out treaty terms-- US Representative Barnes reports that he "has yet to hear any person in Sofia," either Bulgarian or foreign, express a belief that the Bulgarians will carry out any treaty terms that a Soviet-supported government considers onerous, or that they will diminish their efforts to regain Western Thrace and to implement creation of a South Slav Federation which will include Greek Macedonian territory.

FAR EAST

6. **CHINA:** US economic aid sought by Central Government--T.V. Soong has expressed to US Embassy Nanking his extreme concern over the abrupt deterioration in China's economic and financial situation, and claims that if US aid is not forthcoming very soon, "the organized Communists, who had armed forces to back them, . . . would take power." By way of constructive political proposals, Soong said that he favored (a) immediate constitution of the State Council (reserving seats for the Communists) with very substantial powers and policy responsibilities, and (b) formation of a coalition Executive Yuan.

The Embassy, however, believes that the main danger in China is not a "dramatic economic collapse" but an "insidious economic and political disintegration," which will progressively weaken the de facto authority of the Central Government, lead to a revival of regionalism and warlordism, and increase the Communists' activities. The Embassy considers that the Communists are more likely to spread their influence and heighten unsettlement in Central Government areas, than to take over the whole country. The Embassy adds that both Chiang Kai-shek and Soong seem "unsure as to what the next move should be."

THE AMERICAS

7. **PANAMA:** "Executive agreement" for sites proposed--According to US Ambassador Hines, the Panamanian Foreign Office now proposes an "executive agreement" on the defense sites couched in general terms and designed for public consumption, which would give the impression that the occupation of the sites would be a joint undertaking of the two Governments. The legal specifications of the agreement, however, would

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be contained in an exchange of notes not to be made public. Hines states that the President and Cabinet appear to have decided to make no further issue of (a) interpretation of the 1942 agreement; (b) return, or symbolic return, of sites presently held; or (c) request for an interim agreement.

8. PERU: Request for new US loan--The Peruvian Foreign Minister has appealed to US Ambassador Cooper for aid in obtaining from the Export-Import Bank a loan without which, the Foreign Minister asserts, the Bustamante Government "might fall." Cooper replied that (a) no loan would be forthcoming until a satisfactory settlement of Peru's dollar debt had been reached, and (b) if President Bustamante would sponsor such a settlement, the Peruvian Senate would promptly pass it.

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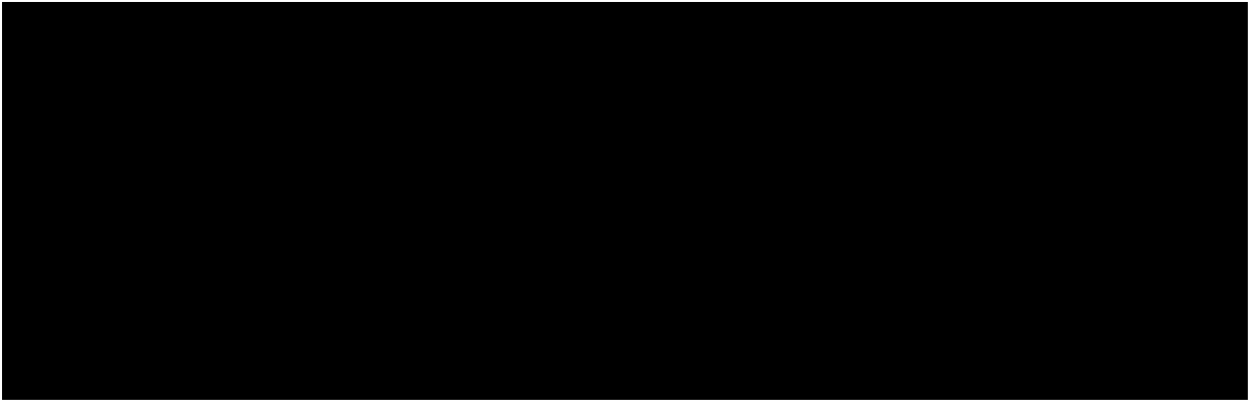
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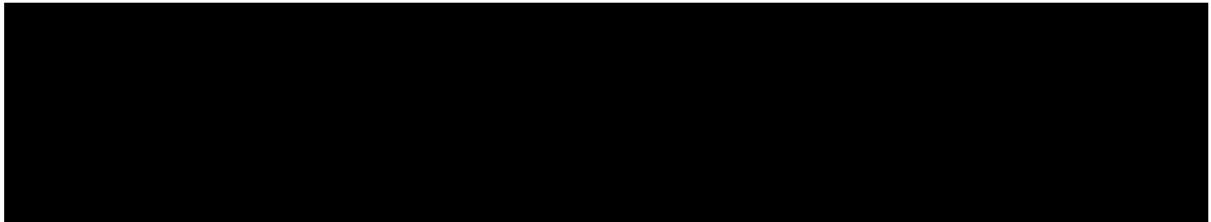
GENERAL

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EUROPE

3. GERMANY: Soviet prerequisites for German economic unity--Koval, Soviet Zone Deputy for Economics, has asked the Economic Director in the US Office of Military Government for US economic-unity proposals "in writing" in order to avoid an "unexpected proposal" at the Moscow Conference. He stated Soviet prerequisites for economic unification to be: (a) satisfaction of Soviet reparations demands; and (b) settlement of certain political questions involving the creation of a provisional central government.
4. YUGOSLAVIA: Provisional basis for post-UNRRA relief--US Charge Hickok, in a comment on the \$68,200,000 Yugoslav relief estimate approved by the UN Committee on post-UNRRA Relief, states his belief that "on exclusively economic grounds" no further relief grants to Yugoslavia should be made unless the Yugoslav Government: (a) justifies the maintenance of an army which drains 51% of the national budget and takes relief supplies and men away from reconstruction work; (b) satisfactorily accounts for profits from sale of UNRRA goods, now

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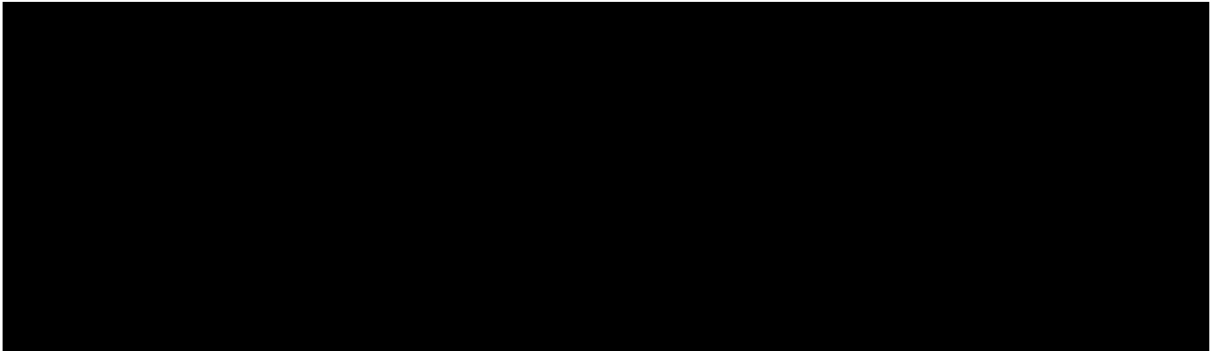
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estimated at over \$350,000,000; (c) accounts for the distribution of all UNRRA supplies processed in Yugoslav factories; and (d) presents foreign trade data and explains its heavy export balance to the USSR. 25X6

5.



THE AMERICAS

6. NICARAGUA: Arguello "victory" considered rigged--US Embassy
Managua reports its belief that the Somoza administration "has made effective use of its control over the ballot boxes to have Arguello declared the victor" in the Presidential elections. The Embassy adds that, while the populace is sullen, the Opposition apparently is not ready for violence now.

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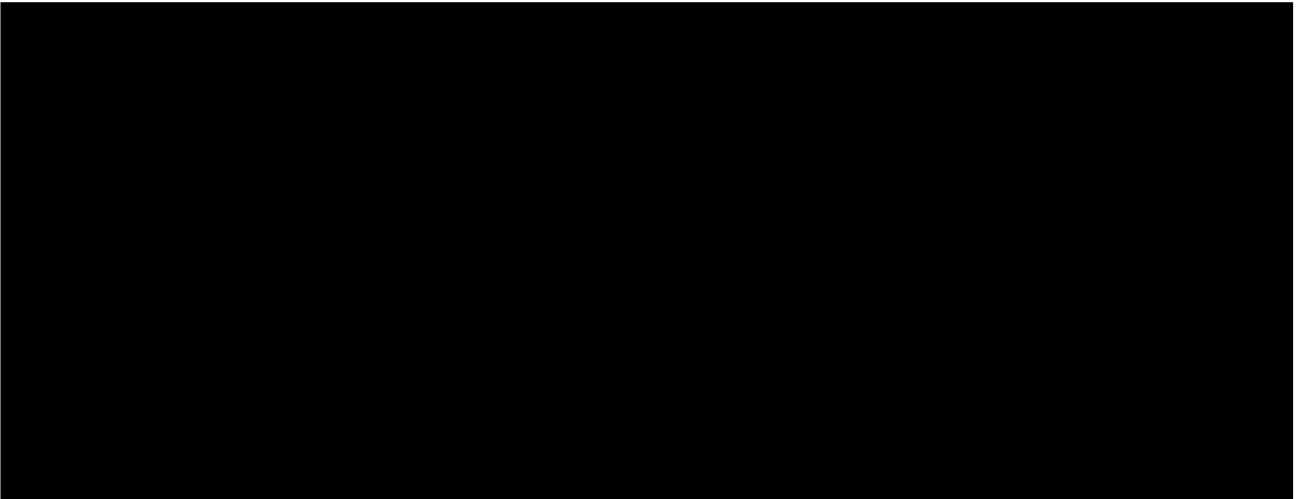
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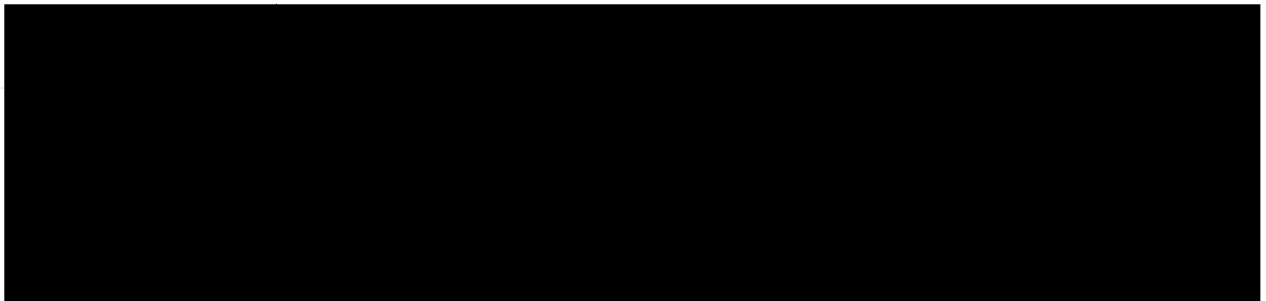
GENERAL

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3. Possible French deal with USSR on Germany--US Ambassador Caffery has gained the impression that the French Ambassador to Moscow has been instructed to tell Stalin that France will agree to Germany's present eastern frontier with Poland and to the USSR's position on reparations from current production, if the USSR in return will agree to economic union of the Saar with France and to a satisfactory internationalization of the Ruhr.

EUROPE

4. GERMANY: Soviet intransigence in Kommandatura--Acting US Political Adviser Muccio reports from Berlin that in Kommandatura meetings the Soviet member has continued his unilateral actions in regard to (a) the

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seating of new members of the Magistrat councillors and (b) the distribution of electrical power in Berlin. Muccio states that the Soviet member remained "obstructive and provocative" until "stopped" by the US member, who said the Soviet member's remarks were "bordering on the insulting and had strained his tolerance"; and that the Kommandatura had "degenerated into a dog fight."

NEAR EAST-AFRICA

5. INDIA: Situation deteriorates--US Embassy New Delhi reports that (a) the majority of Congress Party members appear determined to proceed with the Constituent Assembly regardless of the Moslem League's refusal to participate, as was decided at the League Working Committee's recent meeting; (b) changes of the Assembly's materializing as envisaged in the British Cabinet Mission plan have been further reduced by the Indian Princes' annoyance over passage by the Assembly of Nehru's "objectives resolution" (that India shall become a sovereign, independent republic); and (c) the Viceroy himself is undecided as to what steps can now be taken to resolve the impasse.

FAR EAST

6. PHILIPPINES: Supreme Court rules on collaborationists--US Ambassador McNutt reports that on 31 January the Philippine Supreme Court, by a vote of 9 to 2, rejected the argument that Filipinos, because of "suspended sovereignty," could not have committed treason during the Japanese occupation (see Daily Summary of 29 January, item 7). McNutt adds that this decision is particularly important because the People's Court (which is trying the collaboration cases) has been given a "new lease of life."
7. CHINA: Soviet plans to open Dairen hinted-- [REDACTED] 1C
[REDACTED] a Soviet newspaper publisher, who is connected with Soviet intelligence, has stated that Dairen will be opened to foreigners this summer and has tentatively offered jobs there to Russian detectives in the Shanghai Municipal Police.

25X1C

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THE AMERICAS

8. MEXICO: Possible attempts to spread cattle disease to US--US Ambassador Thurston reports that although in his opinion there will be no "extensive, organized" effort on Mexico's part to spread foot-and-mouth disease to the US, "small radical groups," if foot-and-mouth control causes them financial loss, might attempt to do so. He declares that a Mexican news service has implied that Mexico has "been selected to serve as a springboard" for infecting US stock so that "all countries would be on the same plane."

25X1C

████████████████████ If US authorities insist upon the slaughter of present fighting-bull stock, Mexican breeders "will insure that the disease spreads to the US."

9. NICARAGUA: Arguello victory declaration expected--According to US Ambassador Warren, President Somoza has announced that incomplete returns give Arguello, the Liberal Party (Government) candidate for president approximately a two-to-one majority in all districts. "Indications are," Warren adds, that Aguado, the Conservative (Opposition) candidate, got the larger vote in certain places where official returns show Arguello leading, Warren comments, however, that Somoza's statement shows that Arguello will be declared the winner.

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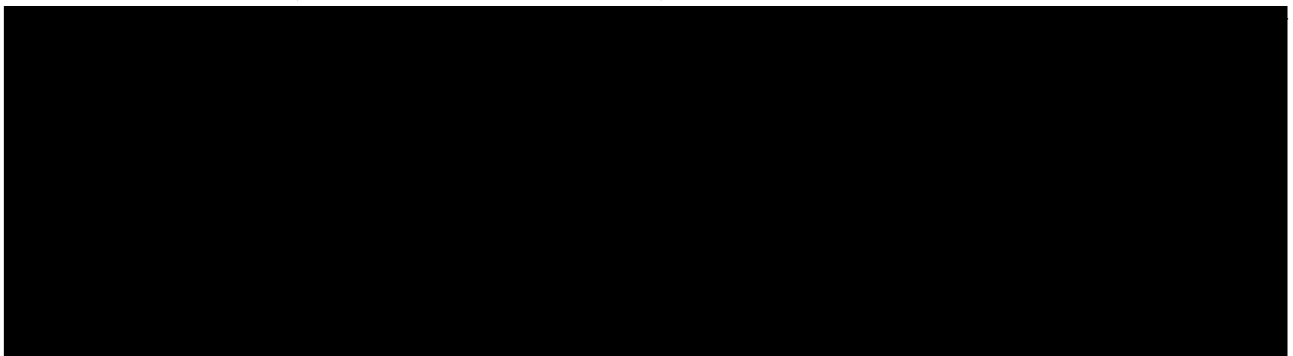
GENERAL

1. A comment on Communism in French North Africa--US Consul General Tangier reports that in all three North African countries under French control (Tunisia, Algeria, Morocco) "one observes" the same pattern of Communist penetration through flirtation with, and apparent support of, local Nationalist groups. He adds, however, that some French, native, and US officials believe Communist influence in North Africa is waning. The Consul General "does not entirely discount" the possibility that if the French hold the Arabs in check "too tightly or too long," Nationalists may reluctantly accept Communist aid. He considers that the best means of preventing Communism in North Africa would be for the French to accelerate the tempo of "liberalizing" the colonial governments there.

(CIG Comment: The above views correspond with those elaborated in "Arab Nationalism in North Africa"; Weekly Summary of 31 January.)

2. French consider Peron "serious" about seizing German assets--US Embassy Paris has been informed by the Foreign Office that French Embassy Buenos Aires has wired that Peron "now appears to be serious" about the business of taking over German external assets there.

3.



EUROPE

4. ITALY: Manner of Pola evacuation may affect response to treaty--According to US Political Adviser Byington, De Gasperi has told the Supreme Allied Commander that all Italians attach great importance to the problem of evacuating the inhabitants of Pola prior to Yugoslav

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occupation (see Daily Summary of 25 January, item 4), and "even went so far" as to say that the manner in which the evacuation is performed will affect the Italian people's reaction to the signing of the peace treaty.

FAR EAST

5. KOREA: Possible Soviet intentions in Korea--General Hodge reports that recent intelligence confirms previous reports that the Soviets, while making material reductions in their forces in North Korea, are arming and training a large Korean force for the eventual purpose of "liberating" South Korea for "Democracy." Considerable evidence indicates that Soviet authorities are transferring all governmental functions to Koreans but are controlling the administration from well in the background. General Hodge believes that, following a possible Soviet withdrawal in the spring, the US may be faced with a Korean demand for the evacuation of US forces or even immediate action by the "armed forces of North Korea" to expel the "reactionary imperialistic Americans." In this event, the US could be discredited throughout the Orient, by representing US forces either as an obstacle to "liberation" or as too weak to protect those who support US policy.

THE AMERICAS

6. CHILE: Bowers comments on Washington "leak"--US Ambassador Bowers, commenting on a locally-published Associated Press dispatch quoting "US Government officials" in Washington as saying that "objectionable features" of the Argentine-Chilean trade agreement were eliminated "as a result of US representation to Chile," observes that (a) Chile asked the US not to give the impression that representations had led to modifications of the treaty, and (b) such leaks "seriously complicate and embarrass" the Embassy's position.

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